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SUBJECT: SINGAPORE ECONOMISTS LOOKING FOR LIGHT AT END OF TUNNEL

REF: SINGAPORE 80

¶1. (SBU) Summary: Although Singapore has seen a steep drop in exports and industrial production the past few quarters and is expected to see continued drops in the near future, Singapore economists are beginning to see signs that the economy has bottomed out and a slow recovery may soon be underway. A leading Singapore academic is forecasting a relatively optimistic growth rate of negative 4.0 percent for 2009, dreadfully low by Singapore standards but higher than most leading investment bank forecasts. Although private sector economists remain more pessimistic, some analysts are also seeing signs that the rate of economic decline is at least slowing. Nevertheless, the Monetary Authority of Singapore is expected to loosen monetary policy in April. End Summary.

¶2. (SBU) Singapore economists recently once again revised downward their forecasts of economic growth in 2009, but economic indicators showing that the rate of economic decline slowing, if not reversing, are leading some economists to think they may finally be seeing light at the end of a long, dark tunnel. Dr. CHOY Keen Meng, a respected macroeconomist at Nanyang Technological University's Economic Growth Center, presented his semi-annual economic forecast March 24, predicting Singapore would see a growth rate of -4.0 percent in 2009. Dr. Choy admitted his forecasts were significantly rosier than those of most other Singapore-based analysts. Dr. Choy said he saw signs of recovery in the U.S. market, which is critical for Singapore's export-oriented economy. Dr. Choy noted that U.S. leading indicators showed some life in January and February, including the U.S. Purchasing Managers Index and housing starts. Singapore's own leading economic indicators are also showing signs of stabilization although not yet outright recovery. Dr. Choy cited a month-on-month improvement in non-oil retained imports (NORI) of 0.8 percent in February that followed a 5.9 percent decline in January. An increase in NORI, which includes imports used for consumption or manufacture of other goods, could mean businesses are receiving new orders or running down inventories and will begin to ramp up production.

¶3. (SBU) Dr. Choy forecast that the first quarter of 2009 would show the worst performance of the year with a -8.7 percent decline, but that in succeeding quarters the Singapore economy would see smaller declines in quarterly GDP and eventually post positive 1.5 percent growth in the fourth quarter. Manufacturing would be the hardest hit sector for the year, with a projected -12.1 percent decline in 2009. Dr. Choy later told Econoff that he could not rule out a "W"-shaped recovery, with a short spike of growth amidst a longer and slower recovery. He offered the caveats that his predictions presumed a resolution of banking insolvency problems, resumption of global credit lending, and a successful stimulus package in Singapore that would add 1.5 points to real GDP.

Private Sector Less Cheery

¶4. (SBU) Most private sector analysts are less sanguine about Singapore's economic outlook for 2009 and recently lowered forecasts yet again. The 2009 GDP forecasts range from a low of negative 10 percent to a high of negative 3.9 percent. These analysts cite Singapore's high dependence on exports (approximately 200 percent of GDP), especially to the G3 countries, for their pessimistic forecasts. This high exposure to the global economy has left Singapore's key export sectors battered amid the current recession. They do not expect a recovery in the G3 economies anytime soon that could provide the catalyst for a rebound in external demand. The fiscal stimulus package announced in January is expected just to keep the economy from deteriorating further, rather than boost growth.

2009 GDP Growth Forecasts

	Forecasts (percent)
Government	-5.0 to -2.0
Standard Chartered	-3.9
Nanyang Tech Univ.	-4.0
Barclay Capital	-4.0
UOB	-4.0
JP Morgan	-4.5
DBS	-4.8
Citigroup	-4.9
Morgan Stanley	-6.0
Nomura	-6.3

Credit Suisse	-6.5
HSBC	-7.0
Goldman Sachs	-8.0
CLSA	-10.0

Source: Various reports

¶5. (SBU) Nevertheless, some local analysts have begun to see signs of a bottom emerging, though with reservations about the pace and sustainability of any recovery given still fragile economic fundamentals. Citigroup analysts pointed out a 1.8 percent monthly increase in non-oil domestic exports in February that, together with improvements in indicators in the electronics market, give some hope that exports may have found a bottom, or at least are now falling at a slower rate. HSBC analysts said the drop in inventories portends a bounce in industrial production as firms restock, but cautioned it would be insufficient to put Asian economies on the road to recovery. They predict statistics will show a "horrible" first quarter for industrial production in Singapore, but noted that January's all-time drop of 29.8 percent may have marked the bottom of the industrial cycle, at least in year-on-year terms.

From Fiscal to Monetary Policy

¶6. (SBU) The GOS put in place an expansionary US$13 billion fiscal stimulus package in January (reftel), and expectations are now that the Monetary Authority of Singapore (MAS) will ease monetary policy at its upcoming meeting in April to further cushion Singapore's deteriorating economy. In Singapore, MAS conducts monetary policy via the exchange rate, whereby the Singapore dollar is allowed to fluctuate against an undisclosed basket of currencies within a band. Private sector economists expect that the MAS will allow a one-off devaluation of the Singapore dollar. Despite the weak economy, the Singapore dollar has been appreciating against a basket of its trading partners' currencies. Most analysts expect the Singapore dollar to weaken to Singapore $1.58 per U.S. dollar from Singapore $1.52 per U.S. dollar by mid-year. Although the weaker exchange rate may give some boost to exporters, loosening monetary policy is unlikely to be the most effective policy tool to counter Singapore's current economic malaise as its economy suffers more from the global

slump in demand than from competitiveness problems.
SHIELDS